

STATE OF NEBRASKA



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Notice to County/City Lottery Licensees Revised County and City Lottery Regulations

On November 13, 2005, the proposed revisions to the County and City Lottery Regulations were formally adopted. Enclosed is a copy of the revised County and City Lottery Regulations. The revised regulations are also available on the Charitable Gaming Division's Web site: www.revenue.ne.gov/gaming.

Audit and Record Keeping and Reporting Requirements (Regulations 35-616 and 35-622)

Included in the revised regulations are changes to the audit and record keeping and reporting requirements for county/city lottery (keno). Specifically, the mandatory annual audit of the county/city lottery (keno) by an independent certified public accountant has been eliminated. In addition, the Nebraska County/City Lottery Annual Report, Form 35K, has replaced the financial summary prepared by the independent certified public accountant. By virtue of the adoption of the revised regulations on audit and record keeping and reporting requirements for county/city lottery (keno), the following apply:

1. Counties, cities, and villages will still be required to have an annual independent audit of their keno lottery for fiscal year 2004-05. The annual audit must be performed by an independent certified public accountant and consist of the Agreed-Upon Procedures and Annual Examination requirements contained in Revenue Rulings 35-96-2 or 35-96-3, whichever is applicable. These Revenue Rulings are accessible on the Charitable Gaming Division's Web site, under County/City Lottery - Information Guides. The results of the annual audit are to be submitted to the Department within 30 days of the completion of the audit.
2. Counties, cities, and villages whose gross proceeds from their keno lottery exceed \$1 million annually are no longer required to perform a quarterly audit of their keno activity. The final quarterly audit report which will be required to be filed with the Department will be for the reporting period July 1 - September 30, 2005. However, a county, city, or village may, at their discretion, continue with the quarterly audit procedures.
3. In lieu of the annual independent audit, unless otherwise authorized by the Department, each county, city, or village will be required to perform the compliance procedures prescribed by the Department in Revenue Ruling 35-2006-01. The compliance procedures may be performed by the county, city, or village or a person who has contracted with the county, city, or village and cover the fiscal year of the county, city, or village. For most cities and all villages, the initial compliance procedures will be performed for the period October 1, 2005 through September 30, 2006 or, if applicable, the 15-month period July 1, 2005 through September 30, 2006. A report outlining the findings from the performance of the compliance procedures must be filed with the Department within 90 days of the end of the fiscal year of the county, city, or village.

A county, city, or village may at their discretion continue with an annual audit of its keno lottery by an independent certified public accountant. However, such audit must, at a minimum, include the performance of the compliance procedures prescribed by the Department in Revenue Ruling 35-2006-01. The audit report must be filed with the Department within 90 days of the end of the fiscal year of the county, city, or village.

4. Unless otherwise authorized by the Department, each county, city, or village will also be required to file a Nebraska County/City Lottery Annual Report, Form 35K. The annual report shall cover the fiscal year of the county, city, or village and be filed with the Department within 90 days of the end of the period covered by the report. For most cities and all villages, this means the initial Form 35K will be required for the period October 1, 2005 through September 30, 2006 or the 15-month period July 1, 2005 through September 30, 2006.

Conduct of the Game - Keno (Regulation 35-613)

There are also a number of changes to game conduct reflected in the revised regulations. Significant changes include the following:

35-613.02B - 613.02C - new regulations clarifying illegal extension of credit for purchase of keno lottery tickets.

35-613.02D - selling tickets, paying tickets, voiding tickets, closing the game, or winning number selection shall not be conducted between the hours of 1:00 a.m. and 6:00 a.m.

35-613.03D(2) - sets forth documentation requirements for tickets voided manually.

35-613.03G - establishes parameters for determination of compliance with the five-minute rule between games.

35-613.04B(3) - clarifies that a minimum of three lottery workers, one of which is the keno manager, must be involved in the performance of ball draw procedures for a manual ball draw method of winning number selection.

35-613.04B(5) - requires a lottery operator using a manual ball draw method of winning number selection to establish a written policy regarding the procedures to be followed when a ball breaks or cracks during the ball draw or a ball is inadvertently left in the throat or rabbit ears from the previous game.

35-613.04E - video tapes of winning number selection may not be reused until the compliance procedures have been completed.

35-613.04F(2) - requires a county, city, village or lottery operator using a manual ball draw method of winning number selection to establish written procedures for the changing of keno ball sets to insure that all 80-numbered keno balls are in the receptacle and available for random selection.

35-613.06E - increases from \$250 to \$500 and over the value of winning tickets which require keno manager authorization.

35-613.07D(3) - provides for alternative means of retaining the transaction log other than printing.

35-613.09D(1) - provides a process whereby a progressive jackpot which has not been won may be discontinued.

35-613.10D - increases from \$250 to \$499.99 the value of winning tickets which can be paid at a satellite location. Also provides a process whereby a higher amount may be requested.

35-613.11A - a copy of any prize security in the form of an irrevocable letter of credit must be provided to the Department and is subject to the approval of the Department.

Other Regulatory Changes

In addition to the above-referenced changes, relatively minor revisions have been made to the following regulations:

Reg-35-600 Definitions, Scope, and Establishment by Counties, Cities, and Villages

Reg-35-602 Expenses

35-602.06 - Compliance with the 14 percent limitation on expenses will be based on the lottery expenses incurred by a county, city, or village during an annual period corresponding to the fiscal year of the county, city, or village.

Reg-35-603 County and City Lottery Taxes

Reg-35-605 Lottery Operators

Reg-35-606 Manufacturers-Distributors

Reg-35-615 Keno Checkout Standards

Reg-35-617 Lottery Equipment

Reg-35-618 Sales Outlet Locations

Reg-35-621 Automated Ball Draw System - codification of Revenue Ruling 35-99-1

35-621.06Q - provides a means whereby a county, city, village, or lottery operator using an automated ball draw system for winning number selection may request to deviate from the procedures prescribed in the regulation.

We encourage you to review all of the revised regulations to reacquaint yourself with the regulatory requirements for county/city lottery. If you have any questions regarding the revised regulations or any information contained in this notice, please contact the Charitable Gaming Division, toll free (877)564-1315.